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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

ORIGINAL

In the Matter of )  
Simplification of the Depreciation ) CC Docket No. 92-296/  
Prescription Process )

COMMENTS OF BELL SOUTH

BellSouth Telecommunications, Inc. ("BellSouth") hereby comments on the issues specified in the Order Inviting Comments ("OIC"), FCC 93-492, released November 12, 1993.

In the OIC, the Commission seeks comment on its selection of twenty-two plant categories for simplification in 1994 under the Basic Factors Range Option ("BFRO") adopted for price cap local exchange carriers ("LECs") in the Depreciation Simplification Order.<sup>1</sup> Comment is also sought on the projection life and future net salvage ranges applicable to each of these plant categories.<sup>2</sup>

For the reasons set forth below, BellSouth requests that four "technology" plant categories be added to the initial list of categories eligible for simplification in 1994. BellSouth also requests that the basic factor ranges be widened to include all of the existing prescribed basic factors. For the technology accounts, the initial ranges should be based on forward looking data, not the data underlying the existing prescriptions. As shown below,

<sup>1</sup>Simplification of the Depreciation Prescription Process, CC Docket No. 92-296, Report and Order, FCC 93-452, released October 20, 1993 ("Depreciation Simplification Order").

<sup>2</sup>See OIC, Appendix.

these changes in the initial categories and ranges will greatly expand the benefits of the BFRO, while providing ample assurance that the resulting depreciation rates will be in the public interest.

I. The Plant Categories Selected Initially Should Include Digital Switching, Digital Circuit, Aerial Cable (Metallic) and Buried Cable (Metallic).

The initial plant categories selected for simplification include a number of small accounts, but exclude large plant categories containing the majority of LEC plant assets. The 22 accounts selected for initial simplification represent only 23 percent of BellSouth's total assets. As a result, although the depreciation represcription process may be simplified for these smaller accounts, there will be little substantive change in depreciation for the LECs.

For many smaller plant categories, assets are merely "churning" through the accounts. For example, new motor vehicles replace old ones on a regular and recurring basis. By contrast, in the technology plant categories, old technologies are being replaced by newer ones. For example, copper cables are being replaced over time with fiber optic cables. At some time in the future, there will be no assets in the copper cable categories, just as today there are no assets in the cross bar or step-by-step switching categories in BellSouth.

BellSouth therefore recommends the addition of the Digital Switching, Digital Circuit, Aerial Cable (Metallic) and Buried Cable (Metallic) categories to the list of initial plant categories. These four plant categories account for over 62 percent of BellSouth's total investment. They are at the very heart of the massive technology and competitive paradigm shift currently taking place in telecommunications, and thus are likely to have useful economic lives that are much shorter than their physical lives. For the Commission's depreciation simplification efforts to have substantive effect, these plant categories must be included immediately. The Commission staff has the data needed to include these categories in the initial list of categories eligible for simplification.

II. The proposed ranges should be broadened to include all of the existing data points for the small accounts.

The ranges proposed in the OIC will encompass approximately two-thirds of the data points supporting existing, prescribed depreciation rates of price cap LECs. Because the Commission requires that both basic factors, projection life and future net salvage, be within the ranges for simplification to be available<sup>3</sup>, fewer than half of the opportunities for price cap LECs will likely qualify for simplification. ( $.67 \times .67 = .45$ ) In BellSouth's case, the restriction is even more limiting. BellSouth will be within

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<sup>3</sup>Report and Order at ¶ 74.

the ranges proposed in the OIC in only 35 percent of its account-jurisdiction opportunities, representing less than 6 percent of BellSouth's assets. BellSouth strongly urges the Commission to consider wider ranges so as to extend the substantive benefits of simplification.

The Commission's rationale for limiting the width of the ranges was stated in the Depreciation Simplification Order and the OIC as follows:

. . . we wish to make the ranges wide enough to accommodate a significant number, if not all, of the LECs. On the other hand, we must not make the ranges so wide that they would no longer enable us to exercise effective oversight of depreciation rates.<sup>4</sup>

In the Depreciation Simplification Order, the Commission repeatedly stated that carriers are responsible for selecting basic factors that reflect the company's operations, whether or not such factors are within the ranges.<sup>5</sup> The established ranges merely create a rebuttable presumption of reasonableness. As stated in paragraph 73 of the Depreciation Simplification Order:

73. We believe this approach is reasonable because the factors that will be the basis for establishing the ranges will have been analyzed and found generally reasonable. We further ensure the reasonableness of the ranges by seeking comment on them. The added

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<sup>4</sup>OIC at ¶ 7, citing Depreciation Simplification Order at ¶ 61.

<sup>5</sup>See, e.g., Depreciation Simplification Order, ¶ 29, 71, and 73. ¶ 26, footnote 35, is explicit: "Any factor selected by a carrier should reflect that carrier's operations. Moreover, the carrier should have support for any selected range factor. The carrier will not need to submit such data, but must maintain it."

degree of flexibility given by this approach means that for any carrier with a prescribed rate derived from basic factors within established ranges for an account, a presumption of reasonableness attaches to all basic factors within the established ranges for that account. However, such a presumption is not conclusive. Any proposed basic factor changes, either inside or outside the ranges, should be based on company operations. If a LEC makes a reasonable showing, based on current data requirements, that its basic factors should be different from those within established ranges, we would prescribe rates using appropriate basic factors. If other interested parties make reasonable showings that a LEC's operations require the use of basic factors different from those within established ranges or those proposed (although they fall within the ranges), we also would prescribe rates using appropriate basic factors. In either case, the showing would necessarily include a study consistent with our current depreciation analysis process.

Thus, companies are still required to select basic factors that reflect individual company operations, and the presumption of reasonableness that attaches to that selection only operates until the selection is challenged. The Commission would give up none of its ability to protect the public interest by using the full range of existing, prescribed factors to establish the initial ranges.

The Commission already knows where each company's basic factors fall within the range of existing factors. An abrupt shift in basic factors by a carrier will provide an obvious warning that the Commission and other interested parties can use to request that the carrier justify its proposal based on company operations. Thus, there is little, if any, risk of abuse by the price cap LECs, even if the ranges are significantly wider than those proposed in the OIC.

This is especially true for small accounts. For BellSouth, the 15 smallest plant categories being established for range treatment in the OIC represent less than 5% of its total depreciation accrual. The Commission can establish much wider ranges for these small accounts and still impact only a small proportion of a carrier's depreciation expense. Thus, even if a carrier proposed basic factors for such accounts that could not be justified by company operations, and the review process did not catch the discrepancy, the impact would be de minimis.

The opportunity to greatly reduce the administrative burden on the carriers and the Commission staff by widening the range on the small accounts can be realized with no significant risk to customers of price cap LECs. Therefore, BellSouth urges the Commission to establish ranges for the small accounts identified in the OIC that reflect the full range of existing basic factors of the price cap LECs.

III. The Commission should adopt ranges for technology accounts using forward looking data.

BellSouth is extremely disappointed with the proposal in the OIC to exclude major technology accounts from the list of initial plant categories eligible for simplification. Over 62 percent of BellSouth's investment is in four technology accounts that are not proposed for inclusion in the initial list. The Commission did include one technology account, Underground Cable (Metallic), in the list of initial accounts. However, the range proposal for that account is so narrow that BellSouth would not be

eligible for simplified treatment in any of its nine states. Not only should the Commission include these accounts in the simplification process, but it should establish ranges for these accounts based on forward looking data, not existing prescriptions.

The Commission is certainly aware of the speed with which new technology is becoming available to telecommunications carriers and their competitors. Fiber optic transport facilities are now being deployed by the LECs, interexchange carriers, competitive access providers, cable television companies, and electric utilities. The virtually unlimited capacity of this new technology is bringing about a convergence of formerly distinct markets for communications, entertainment and computing. The potential of wireless technology is just beginning to be realized.

These marketplace developments make it critically important that the LECs depreciate their investment in older technologies on a timely basis. Technological obsolescence rather than physical wear and tear is now the critical factor in determining the remaining useful lives of these assets. If the opportunity to recover the capital invested in these assets is delayed, it may well be foregone. Public policy demands that the Commission tailor its regulations to accommodate these changes.

Under the scenario contemplated by the OIC, depreciation of the major technology accounts will not be

simplified for use in 1994. The staff presumably will adopt ranges for the remaining technology accounts that will first be available for use in 1995. However, the Depreciation Simplification Order requires that carriers file full studies to bring their basic factors within the established ranges at the time of their next represcription<sup>6</sup>. BellSouth is next scheduled for represcription in 1995 and 1996. Thus, for carriers like BellSouth, who will likely be outside the ranges for these accounts, simplification for the major technology accounts will not be available until 1996 or 1997, at the earliest.

Under this scenario, the ranges for the technology accounts will be based on basic factors prescribed by the Commission in 1991-93, but will still be applied to BellSouth in 1996-1997. The current scenario can best be described as "too little, too late."

These delays essentially mean that under the BFRO, meaningful depreciation simplification for carriers that have aggressively deployed new technology is purely illusory. The Commission can give substance to depreciation simplification for price cap LECs under the BFRO only if it includes the major technology accounts in the initial list of plant categories, and bases the ranges for those accounts on forward looking data. BellSouth and the other price cap LECs have provided the Commission staff with forward looking data during the 1992 and 1993 represcription proceedings.

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<sup>6</sup>Depreciation Simplification Order at ¶ 77.



The use of this data to establish the initial ranges for the technology accounts would at least ameliorate the impact of the Commission's decision to adopt the BFR0, rather than the Price Cap Carrier Option, for the price cap LECs.<sup>7</sup>

As Commissioner Barrett recently stated:

I write separately to point out that consistency and equity dictate that endogenous treatment of depreciation rate changes be accompanied by the grant to carriers -- in particular local exchange carriers (LECs) regulated under price caps -- of as much control over depreciation rates and expense as is feasible, consistent with prevailing competitive and regulatory circumstances. In my view, this item highlights the need for the Commission to be aggressive in pursuing reform of its depreciation practices and to ensure that those practices not lag significant market and technological developments.<sup>8</sup>

Timing of capital recover is critical to the price cap LECs. The changes sweeping the industry mean that capital recovery delayed may well be capital recovery denied. BellSouth currently has a significant depreciation reserve deficiency, 95% of which is in the five major technology accounts. Changes in the marketplace will greatly exacerbate that deficiency if the Commission fails to provide meaningful opportunities for the price cap LECs to depreciate their plant in a timely manner. Only through the

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<sup>7</sup>BellSouth petitioned the Commission for reconsideration of its decision to deny the price cap carrier option to the price cap LECs on December 6, 1993. BellSouth urges the Commission to act favorably on that petition.

<sup>8</sup>In the Matter of Petition for Waiver of the Commission's Rules to Recover Network Depreciation Costs, Order, FCC 93-522, released December 8, 1993, Separate Statement of Commissioner Andrew C. Barrett, pages 1-2.

"aggressive" Commission action recommended by Commissioner Barrett will the promise of capital recovery become a reality.

IV. Conclusion.

Achieving meaningful depreciation simplification for the price cap LECs requires a significant departure from the proposals contained in the OIC. The Commission should widen the ranges proposed for small accounts to the full range of basic factors underlying the currently prescribed depreciation rates of the price cap LECs. The Commission should add the principal technology accounts to the initial list of plant categories eligible for simplification, and the Commission should establish the ranges for the technology accounts based on the forward looking data provided by the carriers, rather than the data underlying the existing prescriptions for these accounts. Only if these steps are taken will depreciation simplification for the price cap LECs under the BPRO have any substance.

Respectfully submitted,

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December 17, 1993

**CERTIFICATE OF SERVICE**

I hereby certify that I have this 17th day of December, 1993 serviced all parties to this action with a copy of the foregoing PETITION FOR RECONSIDERATION by placing a true and correct copy of the same in the United States Mail, postage prepaid, addressed to the parties as set forth on the attached service list.

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